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C O N F I D E N T I A L QUEBEC 000016

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SUBJECT: SOFTWOOD LUMBER: QUEBEC INDUSTRY LOOKING TO NEGOTIATE

CLASSIFIED BY: Abigail Friedman, Consul General, Quebec City, State.

REASON: 1.4 (b), (d)

1. (c) Summary: Quebec Forest Industry Council President Guy Chevrete told CG Feb. 1 that Quebec industry is ready to negotiate a solution to the softwood lumber dispute, and has been so for quite some time. They have been held back, in his view, by British Columbia's lumber industry and by former PM Martin's "purely political" interest in not negotiating. Chevrete believes the new Harper government will be willing to enter into negotiations with the U.S. side, but that the minority government may not be in a position to take the first step. A public statement from the U.S. reiterating our desire to negotiate a solution and a willingness to entertain "asymmetric solutions if needed" (i.e., different solutions for different provinces) may help break the impasse, says Chevrete. End summary.

2. (c) CG sounded out Guy Chevrete, President of the Quebec Council on Forestry, Feb. 1, on the prognosis for a return to the negotiating table on softwood lumber. Chevrete said that the Quebec softwood lumber industry is small compared to British Columbia's and that the money that is now in escrow is sorely needed in Quebec to allow for investment in equipment. (Of the roughly 5 billion dollars now frozen, Chevrete estimated that about 1.2 billion is derived from Quebec industry.) He indicated that Quebec's lumber industry is more than ready to negotiate and that Quebec would accept a limit on volume. A return to the 2004 volume would be acceptable for Quebec industry, he said.

3. (c) Chevrete considers British Columbia's lumber industry to be the obstacle to a return to negotiations. Quebec and Ontario have similar softwood lumber profiles, both in terms of the financial stakes, and in what would constitute an acceptable agreement. Both would favor some form of restriction on the volume of exports, he said. BC industry, on the other hand, has a market strategy that is based purely on pushing volume trade. (A chart comparing BC and Quebec exports of softwood lumber to the U.S., shows Quebec exports at only about one third of BC's. While Quebec exports are declining, BC's has soared since 2000.)

4. (c) Given the difference between the volume-based approach of BC and the approaches of Ontario and Quebec, Chevrete proposes an "asymmetric" solution to the softwood lumber dispute. Quebec is willing to accept a limitation on volume, but this would be unacceptable to B.C. Inversely, B.C. would accept a tax, but this would kill Quebec's industry. Chevrete mused that a "volume" solution might work if it were province by province.

5. (c) Chevrete expressed optimism that the timing is propitious for a reopening of negotiations. In his view, even the B.C. government is ready to return to the negotiating table. As for the Harper government, Chevrete believed that the Conservatives want a renewed dialogue with the U.S. in general, and a solution to the softwood lumber dispute in particular. This cocktail of interests suggests to him a rather quick reentry into negotiations. PM Martin, he felt, put the brakes on negotiations for purely political motives, i.e., to boost anti-Americanism and popular support for his government. The challenge for the Conservatives is that there is no consensus on a softwood lumber negotiating strategy within Canada and that they are leading a minority government. Chevrete continued by saying that this simply means that the new government might have difficulty making the opening move. Chevrete considers the recent U.S. reduction of tariff rates as a signal that the U.S. is ready to negotiate. Chevrete believes that if the U.S. and Canadian governments announce a restart of negotiations, this will pressure B.C. industry to the table. The next step is for the U.S. to announce that it can accept an "asymmetric Canadian position, if needed." Chevrete believes this would force the disparate Canadian elements to work seriously toward a negotiated solution.

FRIEDMAN